

Engineer's Report
FOR THE
FORMATION
OF THE
MELROSE
PROPERTY BUSINESS IMPROVEMENT
DISTRICT

*Prepared May 2012 pursuant to the State of California
Property and Business Improvement District Law of 1994
to adopt a Management District in the Melrose area, a community within the
City of Los Angeles
By
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ENGINEER'S CERTIFICATION

This Engineer's Report is prepared pursuant to the Property and Business Improvement District Law of 1994 as amended (Streets & Highways Code Section 36600 *et seq.*; hereinafter "State Law") and pursuant to the provisions of Article XIIIID of the California Constitution (Proposition 218). It has been prepared in support of the Management District Plan for the proposed Melrose Property Business Improvement District (the "District"). That Management District Plan is incorporated herein by reference and provides a more complete description of the services, activities, improvements, and programs (referred to herein collectively as "Services") to be provided by the District.

Review of this Management District Plan and preparation of this Engineer's Report was completed by:

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State of California
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ENGINEER'S REPORT

Introduction

This report shall serve as the “detailed engineer’s report” required by Section 4(b) of Article XIIIID of the California Constitution (Proposition 218) to support the benefit assessments proposed to be levied annually beginning on January 1, 2014 and through and including December 31, 2018 within the Melrose Property Business Improvement District. The assessments levied in connection with the District will be levied against parcels of real property, not businesses, and will be collected on the tax roll at the same time and in the same manner as ad valorem taxes paid to the County of Los Angeles. The Los Angeles City Clerk’s Office is authorized to collect the assessments or to place them on the County property tax roll together with any accrued interest or penalties for late payment or non-payment. The assessments will fund the costs of Services provided by the District, which are distributed among all parcels specially benefiting from them, based on the proportional special benefit that each parcel receives from the Services. Only those properties expected to specially benefit from funded Services will be assessed. This means, for example, that the assessment to fund District operations for calendar year 2015 will be collected on the 2014-15 tax roll.

Background

The District is a property-based assessment district established pursuant to the Property and Business Improvement District Law of 1994 (Streets & Highways Code Section 36600 *et seq.*; hereinafter “State Law”). The State Law authorizes an assessment to fund various services, activities, improvements, and programs (referred to herein collectively as “Services”), provided in connection with a Business Improvement District. The costs of these Services are distributed among all parcels benefiting from the Services based on the proportional benefit each receives from the improvements provided. Only those properties expected to benefit from funded Services may be assessed.

This Engineer’s Report was prepared in support of the Management District Plan for the District. Reference is made to the Management District Plan (which is incorporated herein by reference) for a more complete description of the improvements to be funded with the proposed assessment.

Proposition 218 Requirements

Article XIIIID of the California Constitution, approved by the voters in 1996 as Proposition 218, requires that assessment methodologies meet certain requirements. Key provisions of Proposition 218 together with a description of how the District complies with each are described below.

Finding 1: “Identify all parcels which have a special benefit conferred upon them and upon which an assessment will be imposed” (From Section 4(a)).

There are 180 identified parcels within the District that will specially and individually benefit from its proposed Services. These parcels are shown on the boundary map of the District contained within the Management District Plan, and listed in attachments to the Management District Plan and this Engineer's Report. The lists identify these parcels by Assessor's Parcel Number, property owner name, and site address.

Parcels were identified for inclusion based upon whether or not they will specially and individually benefit from District Services. The purpose of the proposed District is to provide Services to parcels in the Melrose commercial area, located along Melrose Avenue between N. Highland Avenue on the east and N. Fairfax Avenue on the west. Like many commercial areas in Los Angeles, Melrose is a narrow strip, which is approximately one parcel deep on each side of Melrose Avenue and substantially surrounded by residential neighborhoods. Consequently, all non-residential parcels located within a block of Melrose Avenue were included in the District, while the surrounding solely residential zoned neighborhoods were not. Parcels zoned solely for residential use are excluded from the District or not assessed because, pursuant to Section 36632(c) of the Law, they "are conclusively presumed not to benefit" from District Services.

Two (2) benefit zones have been identified within the proposed District as described below:

- Zone 1 consists of all commercially zoned properties in the District. All District Services will be provided to these properties, which experience the highest level of vehicle and pedestrian traffic and commercial density, and, thus demand for Services among the two (2) zones of benefit. These Services include: ambassador / security services; landscaping, sanitation, and beautification services; marketing and promotions; new business attraction; policy development, management, and administration; and, office, insurance, accounting, and other overhead costs. The particular and distinct special benefits conveyed to each Zone 1 parcel are described below.
- Zone 2 consists of all "PF" zoned properties in the District used as public school sites by the Los Angeles Unified School District (LAUSD). There are two (2) such parcels: Melrose Elementary School (APN 5525-010-900) and Fairfax High School (APN 5527-021-900). Because of their use as schools whose use is governed by law, these parcels experience a different type of vehicle and pedestrian traffic and no commercial use, which translates into less demand for District services than Zone 1 parcels. Only ambassador / security services; landscaping, sanitation, and beautification services; and the organizational overhead resources needed to support them (policy development, district management, and administration; and, office, insurance, accounting, and other costs) will provide a special benefit to these properties. (Marketing and promotions and new business attraction services will not benefit these Zone 2 parcels.) Also these services will be provided to Zone 2 parcels less frequently than provided to Zone 1 properties; and, only on frontage that is directly across

from other street frontage that receives District Services. The particular and distinct special benefits conveyed to each Zone 2 parcel are described below.

All parcels included in the District are commercial use, as defined by the Los Angeles County Assessor's Office, except for the "PF" zoned public schools use parcels. All assessed commercial use parcels, will specially and individually benefit from District Services in proportion to their relative land and improvement size and length of street frontage as described below:

- Ambassador / Security services provide a readily identifiable, uniformed service patrol that observes and responds to needs from the properties to be assessed. The impact of these services is to create the appearance of safety for each individually assessed parcel, which will enhance the comfort level of customers, employees, visitors, owners, and tenants as they travel between those parcels, thereby stimulating the quality of their shopping / business experience and contributing to an improved business climate and economic vitality that specially and individually benefits those parcels. This benefit to assessed District parcels is particular and distinct because non-assessed parcels do not receive these benefits. This standard of service is higher than would exist with only baseline City services.
- Landscaping, Sanitation, and Beautification services include sidewalk cleaning, street and public alley cleaning, sidewalk pressure washing, graffiti removal, sticker removal, trash removal, and landscaping at the properties that are assessed. The impact of these services upon assessed District parcels is that they attract customers, employees, tenants, and investors thereby increasing business volumes and property values. This benefit to assessed District parcels is particular and distinct because non-assessed parcels do not receive these benefits. This standard of service is greater than would exist with only baseline City services.
- Marketing and Promotions services include street banners, signage, holiday decorations, a website, a newsletter for property owners, branding graphics and advertising, placement of promotional materials in various media, and brochure preparation that target customers, employees, tenants, and investors either individually or as combined sub-groups to communicate the desirability of merchandise or services provided on assessed District parcels thereby increasing economic activity including sales, customer traffic, property values, and space rental. This benefit to assessed District parcels is particular and distinct because non-assessed parcels or the merchandise or services provided on them or their location will not be the subject of any District activities. These services would not be available within the City's baseline level of services.
- New Business Attraction services include preparation of brochures or other communications vehicles, preparation of economic or demographic analyses, preparation of planning analyses, and representation of the District's best interested as approved by the Owner's Association in order to expand existing tenancies, attract new tenants, or general future growth that positively affects the District and each individual assessed parcel in the District by contributing to an improved business climate and economic vitality. Research has shown that new business tenants and commercial growth tend to increase the business volumes,

sales, and property values of other immediately adjacent existing businesses and properties. This benefit to assessed District parcels is particular and distinct because non-assessed parcels do not receive these benefits. These services are not available within the City's baseline level of services.

- The District's Policy Development, Management, and Administration services provide for the efficient and effective functioning of the above described direct Services (i.e. ambassador / security; landscaping, sanitation, and beautification; marketing and promotions; and new business attraction) and the development of broader policies affecting the area that encourage economic activity and growth. These services include District vendor selection and management, property owner communications, advocacy of property interests, effective Owner's Association coordination, and sound fiscal management. The impact of these services upon assessed District parcels is that they improve the effectiveness and efficiency of District Services and facilitate the development of broader policies affecting the area that encourage economic activity and growth, both of which increase business volumes and property values. This benefit to assessed District parcels is particular and distinct because non-assessed parcels do not receive the benefits of its direct services or the policy initiatives it undertakes. These services are not available within the City's baseline level of services.

All "PF" zoned properties in the District used as public school sites by the Los Angeles Unified School District (LAUSD) will specially and individually benefit from the following District services: ambassador / security services; landscaping, sanitation, and beautification services; and, the organizational overhead resources needed to support them (policy development, district management, and administration; and, office, insurance, accounting, and other costs) in proportion to their relative land and improvement size and length of street frontage. There are two (2) such parcels: Melrose Elementary School (APN 5525-010-900) and Fairfax High School (APN 5527-021-900). Such public use parcels will not benefit from the following District services: marketing and promotions services; and, new business attraction services as described below:

- Ambassador / Security services include provide a readily identifiable, uniformed service patrol that observes and responds to needs from the properties to be assessed. The impact of these services is to create the appearance of safety for each individually assessed parcel, which will enhance the comfort level of students, teachers, employees, and visitors as they travel to and from those parcels, thereby stimulating the quality of their educational experience and contributing to the public school mission that specially and individually benefits those parcels. This benefit to assessed District parcels is particular and distinct because non-assessed parcels do not receive these benefits. This standard of service is higher than would exist with only baseline City services.
- Landscaping, Sanitation, and Beautification services include sidewalk cleaning, street and public alley cleaning, sidewalk pressure washing, graffiti removal, sticker removal, trash removal, and landscaping at the properties that are assessed. The impact of these services upon assessed District parcels is that they attract students, teachers, employees and visitors thereby contributing to satisfying the owner's service mission. This benefit to assessed District parcels is particular and

distinct because non-assessed parcels do not receive these benefits. This standard of service is higher than would exist with only baseline City services.

- Marketing and Promotions services include street banners, signage, holiday decorations, a website, a newsletter for property owners, branding graphics and advertising, placement of promotional materials in various media, none of which will benefit publically owned parcels because they are addressed to commercial economic uses not school users and therefore do not benefit them. Consequently, publically owned parcels in the District will not be assessed for Marketing and Promotions costs.
- New Business Attraction Services include preparation of brochures or other communications vehicles, preparation of economic or demographic analyses, preparation of planning analyses, and representation of the District's best interested as approved by the Owner's Association in order to expand existing tenancies, attract new tenants, or general future growth that positively affects the District, none of which will benefit publically owned parcels because they are addressed to commercial economic uses not school users and therefore do not benefit them. Consequently, publically owned parcels in the District will not be assessed for New Business Attraction costs.
- The District's Policy Development, Management, and Administration services provide for the efficient and effective functioning of the ambassador / security services; and, landscaping, sanitation, and beautification services that benefit these publically owned parcels and therefore provide a particular and distinct special benefit to them because non-assessed parcels do not receive the benefits of its direct services. These services include District vendor selection and management, property owner communications, advocacy of property interests, effective Owner's Association coordination, and sound fiscal management. The impact of these services upon assessed District parcels is that they improve the effectiveness and efficiency of District Services which benefits the owner's achievement of its service mission. This benefit to assessed District parcels is particular and distinct because non-assessed parcels do not receive the benefits of its direct services. This standard of service is higher than would exist with only baseline City services.

In order to ensure that parcels outside of the District will not specially benefit from the Services funded with the assessment, Services will only be provided within the boundaries of the District. Specifically, ambassador / security patrols, landscaping staff, sanitation personnel, and similar service providers employed in connection with the District will only patrol and provide services on the streets and sidewalks adjacent to individually assessed parcels within the District and will not provide services outside of District boundaries. Similarly, the District will not fund new ambassador / security patrols; landscaping, sanitation, or beautification services; marketing or promotional efforts; nor new business attraction activities directed outside of District boundaries. All District programs are intended to promote commercial vitality, and to attract and retain new business within the District.

Parcels outside of the District that are in solely residential use will not specially benefit from District Services because the Services will not be provided on the street or sidewalk fronting such parcels. Therefore, these solely residential parcels will be physically remote from the Services — patrols will not go in front of such parcels and landscaping, sanitation, and beautification crews will not clean in front of such parcels. Furthermore, homes, apartments and other structures solely used as residences, and outside of the commercial area encompassed by the District, will not specially benefit from the marketing and promotions; new business attraction; and, policy-making services that will be geared towards the commercial use parcels within the District. These services will be marketing the office and retail opportunities in the District, not the residential opportunities outside of it. Additionally, the State Law conclusively presumes that parcels zoned solely for residential use receive no special benefit from improvements, activities, and services funded under it. No solely residential zoned parcels are included within the District.

Parcels outside of the District that are in commercial or other non-residential uses, will not specially benefit from District Services because these Services will not be provided on the street or sidewalk fronting such parcels. Therefore, these commercial or other non-residential use parcels will be physically remote from the services — patrols will not go in front of such parcels and landscaping, sanitation, and beautification crews will not clean in front of such parcels. Furthermore, marketing and promotions; new business attraction; and, policy-making services that will be geared towards the commercial use parcels within the District and not parcels outside the District. These commercial or other non-residential use parcels are parts of other commercial or residential Districts that surround the Melrose commercial area, not part of this District, which has a definite and unique character and different marketplace orientation from these surrounding areas.

The following narrative explains how specific boundary locations were determined.

Northern Boundary:

The northern boundary of the District begins at the intersection of the centerline of N. Fairfax Avenue with the centerline of the public alley north of parcel 5527-011-005 (the parcel at the northeast corner of N. Fairfax Avenue and Melrose Avenue). From that point, the District boundary follows the centerline of the public alley east approximately 1 mile to the centerline of N. Formosa Avenue. At the point at which the public alley centerline intersects with the centerline of Poinsettia Place, the boundary follows the Poinsettia Place centerline to transition from 15 ft. wide public alley width to the west and 20 ft. wide public alley to the east and then continues east along the public alley centerline. Continuing at the point of intersection of the center of the public alley and the centerline of N. Formosa Avenue, the District boundary runs north along the centerline of N. Formosa Avenue to its intersection with the centerline of Waring Avenue, then east along the centerline of Waring Avenue to its intersection with N. Detroit Street, then south along the centerline of N. Detroit Street to its intersection with the centerline of the public alley to the north of parcel 5525-009-022 (the parcel located at the northeast corner of N. Detroit Street and Melrose

Avenue). From that point, the District boundary continues east along the centerline of the public alley to the centerline of the public alley to the east of that parcel 5525-009-022, then along that centerline to its intersection with the north parcel boundary of parcel 5525-009-024 at which point it continues east across N. La Brea Avenue to the centerline of the public alley to the north of parcel 5525-008-032 (the parcel located at the northeast corner of N. La Brea Avenue and Melrose Avenue). From that point, the District boundary continues east along the centerline of the public alley to its intersection with the centerline of the N. Citrus Avenue then, south along that centerline to its intersection with the centerline of Melrose Avenue, then along that centerline to its intersection with the centerline of Highland Avenue. This boundary was chosen to include all of the non-residential, commercial use parcels with shared marketplace demographic orientation that compose the unique, historically identified, compact, area that attracts pedestrians known as “Melrose,” to the south between N. Fairfax Avenue and N. Highland Avenue and exclude all solely residential zoned parcels located to the north of the alley that runs behind the Melrose Avenue business strip. Solely residential zoned parcels are presumed by State Law to not benefit from District improvements, activities, or services. The area to the north of the alley is zoned solely residential, except along N. Fairfax Avenue, N. La Brea Avenue, and N. Highland Avenue (each of which constitutes a distinct business corridor). The commercially zoned parcels that front on N. Fairfax Avenue or N. La Brea Avenue are excluded from the District because they are oriented to provide services to those major commercial collector streets and would not benefit from the improvements, activities, or services provided for the unique, historically identified, compact, area known as “Melrose” that attracts pedestrians and its commercial uses that share a different marketplace demographic orientation. The commercially zoned parcels that front N. Highland Avenue are excluded from the District because they are included within the boundaries of the Hollywood Media District BID and, therefore, prohibited by State Law from being included in the District. All assessed parcels located within the District will specially and individually benefit from its improvements, activities, and services. No improvements, activities, or services will be provided outside of the District’s boundaries.

Eastern Boundary:

The eastern boundary of the District begins at the intersection of the centerline of Melrose Avenue and its intersection with the centerline of N. Highland Avenue and extends south along that centerline to its intersection with the centerline of the public alley south of parcel 5524-017-001. This boundary was chosen to include all of the unique, historically identified, compact, area known as “Melrose” that attracts pedestrians to the west that functions as an economic unit with a shared marketplace demographic orientation. This boundary also excludes from the District commercially zoned parcels that front on N. Highland Avenue and are located within the Hollywood Media District BID and precluded by State Law from being included within the Melrose BID boundaries. Solely residentially zoned parcels that front on N. Highland Avenue are excluded from the District because they are presumed by State Law to not benefit from District improvements, activities, or services. The auto

maintenance commercial use located at Highland Avenue is oriented to provide services as part of the extended commercial corridor located along that major arterial street and that would not benefit from the improvements, activities, or services provided for the unique, historically identified, compact, area known as "Melrose" that attracts pedestrians and a different marketplace demographic. Parcels located east of N. Highland Avenue on Melrose Avenue are either zoned solely residential and presumed by State Law to not benefit from improvements, services, and activities provided by the District or are commercial parcels that are oriented to providing services to the surrounding residential neighborhood and are also excluded from the District because they would not benefit from the improvements, activities, or services provided for the unique, historically identified, compact, shopping / office district fronting on Melrose Avenue that attracts pedestrians of a different marketplace demographic orientation. All assessed parcels located within the District will specially and individually benefit from its improvements, activities, and services of the District. No improvements, activities, or services will be provided outside of the District's boundaries.

Southern Boundary:

The southern boundary of the District continues west from the intersection of the centerline of N. Highland Avenue with the centerline of the public alley south of parcel 5524-017-001 (the parcel located at the southwest corner of N. Highland Avenue and Melrose Avenue). From that point, the District boundary follows the centerline of the public alley west approximately 1 mile to the centerline of N. Genesee Avenue. At that point, to include the Fairfax High School parcel 5527-021-900 that fronts on Melrose Avenue, the District boundary runs south along the centerline of N. Genesee Avenue to its intersection with the centerline of Rosewood Avenue, then west along the centerline of Rosewood Avenue to its intersection with the centerline of N. Fairfax Avenue. This boundary was chosen to include all of the commercial parcels that compose the unique, historically identified, compact, area known as "Melrose" that attracts pedestrians with a shared marketplace demographic orientation to the north and excludes those to the south that are zoned solely residential and presumed by State Law to not benefit from District improvements, activities, or services. Also excluded from the District were commercially zoned parcels that front on N. Fairfax Avenue, or N. La Brea Avenue (each of which constitute a distinct business corridor). These extended, regional commercial corridors are oriented to provide services to automobile traffic on those major arterial streets and would not benefit from the improvements, activities, or services provided for the shopping / office district fronting on Melrose Avenue that attracts pedestrians. All assessed parcels located within the District will specially and individually benefit from its improvements, activities, and services. No improvements, activities, or services will be provided outside of the District's boundaries.

Western Boundary:

The western boundary of the District continues north along the centerline of N. Fairfax Avenue from its intersection with the centerline of Rosewood Avenue south of parcel 5527-021-900 (the parcel located at the southeast corner of N. Fairfax Avenue and Melrose Avenue), and extends to its intersection with the centerline of the public alley north of parcel 5527-011-005, which is the point of beginning for this boundary description. This boundary was chosen to include the entire unique, historically identified, compact area known as “Melrose” that attracts pedestrians with a distinct and shared marketplace demographic. Fairfax High School breaks the pedestrian customer activity flow from those parcels to the east; and, the clientele and type of commercial activity on the commercially zoned parcels to the west are different from that of the Melrose area. This boundary also excludes from the District commercially zoned parcels that front on N. Fairfax Avenue that are a part of the extended commercial corridor located along that major arterial street and oriented to provide services to automobile traffic on it and that would not benefit from the services provided for the shopping / office district fronting on Melrose Avenue that attracts pedestrians. Parcels located west of N. Fairfax Avenue that are zoned solely residential and presumed by State Law to not benefit from District improvements, activities, or services are also excluded from the District. Commercial parcels located west of N. Fairfax Avenue that are oriented to providing services to adjacent residential neighborhoods or to a different customer market segment, are excluded from the District because they would not benefit from the improvements, activities, or services provided for the shopping / office district fronting on Melrose Avenue that is known to attract pedestrians. Also excluded from the District are commercial parcels located west of N. Fairfax Avenue that are a part of non-Melrose shopping areas and would not benefit from the improvements, services, and activities directed to that unique, historically identified, compact, area known as “Melrose” that attracts pedestrians to the west that serve a shared marketplace demographic. All assessed parcels located within the District will specially and individually benefit from its improvements, activities, and services of the District. No improvements, activities, or services will be provided outside of the District’s boundaries.

Finding 2: “Separate the general benefits from the special benefits conferred on parcel(s). Only special benefits are assessable.” (From Section 4(a)).

State Law, Proposition 218, and judicial decisions require that assessments be levied according to the estimated special benefit each assessed parcel receives from Services provided by the District. Article XIIIID Section 4a of the California Constitution states, in part, that “only special benefits are assessable,” which requires that general benefits, if any, be separated from special benefits provided by the District. A recent judicial decision in the Golden Hill Neighborhood Association v San Diego case further clarified that “even minimal general benefits must be separated from special benefits and quantified so that the percentage of the cost of services and improvements representing general benefits, however slight, can be deducted from the amount of the cost assessed against specially benefitting properties.”

Special Benefit

Proposition 218 defines “special benefit” to mean “a particular and distinct benefit over and above general benefits conferred on real property located in the District or to the public at large. General enhancement of property value does not constitute ‘special benefit.’” The Services, their costs, and assessments have been carefully identified, reviewed, and allocated to confer special and individual benefits pursuant to the provisions of State Law and Proposition 218. These Services are tailored to confer special benefits on particular parcels, not the general public, and are above and beyond services available from the City of Los Angeles, which qualifies these Services as particular and distinct benefits. For example, the proposed Ambassador / Security Services Program provides a readily identifiable, uniformed presence serving each individually assessed parcel by observing and responding to needs of those parcels and in doing so creates the appearance of safety of each individually assessed parcel, which will enhance the comfort level of customers, employees, visitors, owners and tenants as they enter, move through, leave, and travel between those parcels, thereby stimulating the quality of their shopping / business experience and contributing to an improved business climate and economic vitality that specially and individually benefits those parcels. These benefits are particular and distinct in that they are not provided to non-assessed parcels outside of the District. Similarly, the proposed Landscaping, Sanitation, and Beautification Program provides sidewalk cleaning, street sweeping, pressure washing, trash removal, graffiti removal, sticker removal, and cleaning at the properties that are assessed. Parcels that receive these services attract more customers, employees, tenants, and investors thereby increasing business volumes and property values. These benefits are particular and distinct in that they are not provided to non-assessed parcels outside of the District. Also similarly, the proposed Marketing and Promotions Program provides street banners, signage, holiday decorations, a website, a newsletter for property owners, branding graphics and advertising, placement of promotional materials in various media, and brochure preparation that target tenants, employees, investors, and owners either individually or as combined sub-groups to communicate the desirability of merchandise or services provided on assessed parcels thereby increasing economic activity including sales, customer traffic, property values, and space rentals. This benefit to assessed District parcels is particular and distinct because non-assessed parcels or their residential units will not be the subject of any District marketing and promotions activities. Also similarly, New Business Attraction services provides for preparation of brochures or other communications vehicles, preparation of economic or demographic analyses, preparation of planning analyses, and representation of the District’s best interested as approved by the Owner’s Association in order to expand existing tenancies, attract new tenants, or general future growth that positively affects the District and each individual assessed parcel in the District by contributing to an improved business climate and economic vitality. Research has shown that new business tenants and commercial growth tend to increase the business volumes, sales, and property values of other immediately adjacent existing businesses and properties. No District services will be provided outside the District boundaries. The special and individual benefit to parcels from the proposed Services is equal to or exceeds the total amount of the proposed assessment in that each individual assessed parcel’s assessment is no greater than the special and individual

benefit it receives from the Services. A quantitative analysis of the special and general benefits is presented below.

The District's purpose is to fund Services that increase pedestrian traffic and business levels by providing a safer, more comfortable, better kept, cleaner, and more beautiful environment; presenting a more attractive and vibrant area; and, attracting new businesses and tenants which increase rent levels, occupancies, and the vibrancy of the area. These Services also make each individual parcel a more desirable place to live, work, or conduct business.

Pragmatically, it is well known that business decisions are based upon the quality of alternative locations. As described in an article "Accelerating Economic Growth and Vitality Through Smarter Public Safety Management" that appeared in the September 2012 IBM Global Business Services Executive Report: "Lower levels of public safety lead to increased uncertainty in decision making and can be perceived as a signal of a socio-institutional environment unfavorable for investment. Uncertainty affects the investment environment in general. But in particular, it increases the fear of physical damage to investment assets (or to people) or their returns... Almost universally, places with lower crime rates are perceived as more desirable." As economic investment occurs within the District, pedestrian traffic will increase and constitute a special and distinct benefit to all parcels.

Therefore, quantification of the number of individuals engaging in any type of commerce or residing in the District as compared to those not so engaged will distinguish special from general benefits.

As a component in the preparation of this Engineer's Report, a pedestrian intercept survey was conducted within the District boundary to determine the degree to which respondents engage in any type of commercial activity (i.e. patronizing an eating establishment, shopping, visiting a professional or personal service business, or attending church or a school); or, live within that area. The Survey Response Summary and transmittal letter, which is attached to this Engineer's Report and incorporated herein by reference, includes Ph.D. Economist William H. Whitney's "statistical certification" and calculations that the likelihood that it is an accurate reflection of the total District population is 95.72%. (See Attachment 2 for detailed calculations.) The survey included 547 respondents and was conducted on May 2 and May 4, 2013 at separate random locations throughout the District. Every effort was made to include an unbiased cross section of participants. All of the respondents appropriately addressed each of the questions with a single answer, which allowed all surveys to be used in drawing conclusions.

As to survey results, as distinguished from statistical methodology, Whitney continues: "Of those 547 valid survey responses, 522 individuals or 95.43% of the total indicated that they would engage in (or intended to engage in) at least one of the described commercial activities within the District as opposed to simply 'stroll, walk around, or make a transit connection' (i.e. just pass through the District) with no business purpose."

The survey also found that: “of the 547 respondents, 453 individuals or 82.82% of the total indicated that at least one of the proposed District Services would contribute to their decision to come into the area.” This response is a measure of the high level of special benefit that assessed parcels receive from District Services.

The results of this survey, taken into consideration with State Law, judicial guidance, and assessment district practice has resulted in the Engineer’s conclusion that each of the proposed District Services provides a special and individual benefit to the assessed parcels within the District.

The Services (ambassador / security; landscaping, sanitation, beautification; marketing and promotions; new business attraction; and, policy development, management, and administration) to be provided by the District are designed to meet specific needs of the properties to improve business within the District area and provide special and individual benefits to each property. Improving the business environment supports the goals and objectives established by the property owners in creating the District. District Services will not supplant City of Los Angeles’ police protection, maintenance services, and social services within the area.

No parcels zoned for “solely residential” use have been assessed within the District because such parcels are presumed not to benefit pursuant to State Law.

General Benefit

As discussed above, Proposition 218 requires that general benefits be quantified and separated from special benefits and deducted from the costs of any special benefit parcel assessment. General benefits are benefits from District Services that are: not special in nature, not “particular and distinct,” and not over and above the benefits that other parcels receive. This analysis will identify and quantify general benefits that are provided to parcels outside District boundaries; or; that are provided to the public at large.

General Benefits to Parcels Outside the District

Services are provided to each individual assessed parcel within the District’s boundaries, and no Services are provided outside of those boundaries. It is conceivable, however, to conclude that some parcels outside those boundaries may receive some “spillover benefit” from the District’s Marketing and Promotions or New Business Attraction services, which are less site specific than the other Services. At most, the parcels that could receive such “spillover” general benefit would be those parcels that are located immediately adjacent to or immediately across the street from a parcel receiving District Marketing and Promotions or New Business Attraction services. Any parcel that is any further from another that receives these services; or, does not directly front on a street across from another that receives those services is, in the Engineer’s judgment and experience, considered to be too remote to receive any “spillover” general benefit.

In order to quantify the general benefit that parcels adjacent to the District may receive, the relative size of the District budget allocated to these possible “spillover” services in comparison to the total District budget, or “percentage (%) of the total,” must be determined as shown in the table below.

Next, the relative benefit, or the weighted value of the subject services as applied to any parcels outside the District, must be established. This relative benefit factor compares the value of services as provided inside the District to the value of those services provided outside the District. Parcels inside the District receive a relative benefit of 1.0 from all services provided. Parcels outside the District do not receive “full value” of services that are by definition “spillover.” There is no scientifically certain method of determining relative benefit, so the professional judgment and experience of the Civil Engineer are called upon to form a reasonable conclusion. With respect to Marketing and Promotions and New Business Attraction services, the Engineer has concluded that there would at most be a nominal benefit to each parcel outside the District weighted at one-quarter or 0.25. Promotional, website, newsletter, directory, or other materials would not specifically identify any parcel outside the District, thereby minimizing any value of these services. Similarly, no New Business Attraction would identify or consider any specific parcel outside the District, thereby minimizing any value of these services. Only the nebulous scent of a vague sense that important services were being provided to neighboring parcels might attach. Therefore, the Civil Engineer has concluded based upon his nearly 40 years as a Registered Civil Engineer and professional assessment district formation experience that positing of a 0.25 relative benefit is reasonable and provides conservative allowance for any general benefit conferred on such parcels for the subject services. Application of this relative benefit factor to the subject services is also shown in the table below.

Possible General Benefits to Parcels Outside District Boundaries
Benefit Factor Calculation

	Budget	% of Total	x	Relative Benefit*	=	Benefit Factor
District Marketing & Promotions Budget	\$114,000	23.45%		0.25		0.0586
District New Business Attraction Budget	\$15,000	3.09%		0.25		0.0077
						0.0663
Total District Budget	\$486,072					

*For purposes of this analysis, a conservative 0.25 relative benefit factor is used to weight the relative value of any general benefit “spillover” from District services to parcels outside its boundaries.

Based upon the established adjacency criteria, there are 44 commercial parcels that may receive the referenced nominal benefit from District Marketing and Promotions services or New Business Attraction services. There are also 136 parcels zoned solely residential

that meet the contiguous adjacency criteria that, pursuant to State Law, are presumed to not receive any special benefit from District services. The total benefit factor representing the benefit of both Marketing and Promotions services and New Business Attraction services for parcels outside the District is applied to the adjacent commercial parcels in the table below, which establishes the relative value conveyed as a general benefit to parcels outside the District.

The Benefit Factor is calculated by multiplying the Percent (%) of Total Budget for the "spillover" category by the Relative Benefit to produce a Benefit Factor. Each of the 44 parcels that might receive nominal general benefits from the District's Marketing and Promotions or New Business Attractions services is credited with 0.0663 Benefit Factor to account for this possibility. In comparison, there are 180 parcels within the District that each receives a Benefit Factor of 1.0 for these services. This comparison and the calculation of total possible general benefit to parcels outside the District for "spillover" Marketing and Promotions and New Business Attraction services is shown below:

Calculation of Possible Benefits to Parcels Outside District Boundaries

	# Parcels	Benefit Factor	Total Benefit Units
# Parcels in District	180	1.00	180.00
# Parcels w/ "Spillover"	44	0.0663	2.93
Totals	224		182.93
General Benefit to Parcels Outside District			1.31% (2.93/182.93)

General Benefits to the Public At Large

Another type of general benefit is that provided to the public at large. Such general benefit is provided to people that are purposely within the District boundaries and "not at all likely" to engage in any commercial activity. Such individuals would therefore not be specially benefitted by District Services.

The previously described pedestrian intercept survey conducted as a component of the preparation of this Engineer's Report provided data to quantify the general benefits enjoyed by the public at large. It provided data that 95.43% of the population within the District had or intended to engage in at least one of the listed commercial activities (i.e. patronizing an eating establishment, shopping, visiting a professional or personal service business, or attending church or a school). Conversely, 4.57% of the population did not intend to engage in any business and were only engaged in "walking around, strolling, or making a transit connection." These individuals "generally benefited" because they were either "very likely" or "likely" to "stroll or walk around or make a transit connection" in the District **and** "not likely at all" to "eat or drink at a restaurant, cafe, or bar;" "shop;" "conduct professional business;" "conduct personal business;" "attend church;" or "attend

school." Attached to this Engineer's Report, as Attachment 2, is the Survey Response Summary, Economist's Statistical Certification, and additional details relative to this pedestrian intercept survey.

Total General Benefits

Considering both types of general benefits as presented above produces the following:

Melrose General Benefits Analysis

General Benefits to Parcels Outside District	1.31%
General Benefits to Public at Large	4.57%
Total General Benefits (Calculated)	5.88%
Say	6.0%

In order to present a conservative conclusion, it is the Engineer's judgment and experience that the level of general benefits to be funded in the Melrose business improvement district budget from non-assessment sources should be 6.0%, which provides a cushion over and above the calculated general benefit value of 5.88%. The Melrose Business Improvement District budget for the 5-year term beginning January 1, 2014 would be as follows:

Melrose Budget for Special Benefit vs General Benefit Costs

Year	Special Benefit	General Benefit	Total Budget
2014	\$486,072	\$31,026	\$517,098
2015	\$500,654	\$31,957	\$532,611
2016	\$515,674	\$32,915	\$548,589
2017	\$531,143	\$33,903	\$565,046
2018	\$547,077	\$34,920	\$581,997
Totals	\$2,580,620	\$164,721	\$2,745,341

Finding 3: “[Determine] the proportionate special benefit derived by each parcel in relationship to the entirety of the... cost of public improvement(s) or the maintenance and operation expenses...or the cost of the property related service being provided.” (From Section 4(a)).

Every assessed parcel in the District, except publically owned parcels used as school sites with respect to Marketing and Promotions and New Business Attraction services, will specially and individually benefit from the Services provided in connection with the District because these Services are designed to increase pedestrian and automobile traffic and building occupancies thereby increasing demand for and utilization of all assessed commercial properties and mission success of all public school properties within the District. Such publically owned parcels will benefit from District Ambassador / Security services, Landscaping, Sanitation, and Beautification services and the portion of District Policy Development, Management, and Administration services required to provide those services. The District will provide Services including Ambassador / Security Services; Landscaping, Sanitation, and Beautification Services; Marketing and Promotions Services; New Business Attraction Services; and, Policy Development, Management, and Administration Services including necessary administrative overhead and support. Each of these Services is designed to meet the goals and mission of the District; improve the safety and comfort of each individual assessed parcel within the District; to improve the cleanliness and beauty of each individual assessed parcel within the District; to increase building occupancy and lease rates; to encourage new business development; and, to attract ancillary businesses and services for parcels within the District.

Three (3) factors (lot size, improvement size, and street frontage) were chosen to calculate the special benefit allocable to each parcel in the District.

Lot size is a measurement both of the potential for future development on a parcel to meet customer and tenant demand, and of the present capacity of the parcel's street level areas to accommodate customers and tenants. Street level space benefits strongly from business improvement district Services because such space is more readily used for retail space, office space, lobby services, and surface parking facilities that are especially sensitive to increases in customer demand.

The size of the improvements on a parcel is a measurement of the capacity of that parcel to currently serve the demand of customers and of retail, office, commercial, residential, church and non-profit, and publically owned parcels.

Frontage is a vital measure because it indicates the amount of the parcel that is directly accessible to and visible from the street. The more frontage a parcel has, the larger the area of sidewalk is in front of the parcel to be landscaped, cleaned, or beautified in connection with District Services.

It is the Engineer's opinion that combining these three (3) factors gives a far better picture of the benefits than could be derived from just one or two of the factors alone; and, that because no one of these factors is more important than the others, and each factor is critical to the overall benefit calculation, each factor is weighted equally in quantifying the benefits any particular parcel would receive.

The Special Benefit & Assessment Analysis section of this Engineer's Report discusses the exact formula used to calculate the benefits.

Finding 4: "No assessment ...shall exceed the reasonable cost of the proportional special benefit conferred on parcel(s)." (From Section 4(a)).

The total amount to be assessed will not exceed the estimated reasonable cost of the program. Because each parcel will be assessed in proportion to its share of the total benefit created by the program, no assessment will exceed the reasonable cost of the proportional special benefit conferred on the parcel.

Finding 5: "Parcels...that are owned or used by any (public) agency shall not be exempt from assessment." (From Section 4(a)).

The public agency owned parcels are owned by Los Angeles Unified School District (LAUSD) and used as public school site. These parcels will be assessed for the benefits they receive from District Ambassador / Security services; Landscaping, Beautification, and Sanitation services; and, for that portion of Policy Development, Management, and Administration services including Office, Insurance, Accounting, and Other supply costs required to provide them at the same rate as private parcels of the same size, location and use. The methodology for these assessments is set forth in this Engineer's Report.

The publicly-owned parcels in the District are listed below:

LOS ANGELES UNIFIED SCHOOL DISTRICT (LAUSD)

	APN #	Description	Owner	PBID Assessment	% of Total
1	5525-010-900	Melrose Elementary School	LAUSD	\$4,738.50	0.97%
2	5527-021-900	Fairfax High School	LAUSD	\$15,154.50	3.12%
		Total LAUSD		\$19,893.00	4.09%

The above described public parcels owned by the LAUSD and in use as schools and will only receive services on that frontage that is directly across the street from other street frontage that receives District Services. All such publically owned parcels will be assessed for the proportionate special benefits received.

Finding 6: “All assessments must be supported by a detailed engineer’s report prepared by a registered professional engineer certified by the State of California.” (From Section 4(b)).

This report is the “detailed engineer’s report” to support the assessments proposed to be levied within the Melrose Business Improvement District.

Special Benefit & Assessment Analysis

A six (6)-step process for determining Melrose assessments has been used as delineated below.

Step 1: Select “benefit units.”

Because the assessment against each parcel must reflect the special benefit that parcel derives from the District's improvements, activities and services, the first step in designing an assessment methodology was to assign "benefit units" to different parcel attributes. The assignment of benefit units reflects the relative levels of benefit discussed in "Finding 3", above.

There are three types of benefit units:

A. Lot Benefit Units:

Each parcel in the District was allocated one Lot Benefit Unit for each square foot of the parcel's surface area.

B. Improvement Benefit Units:

Each parcel fronting in the District was allocated one Improvement Benefit Unit for each square foot of improvements.

C. Frontage Benefit Units:

Each parcel in the District was allocated one Frontage Benefit Unit for each linear foot of the parcel's frontage on any street except for those parcels zoned PF and used as public schools by the LAUSD. These parcels will be allocated one Frontage Benefit Unit for each linear foot of Melrose frontage and one Frontage Benefit Unit for each linear foot of other street frontage only for the length that is directly across from other frontage that is included in the District. Fairfax High School will be assigned 816 linear feet of Melrose Avenue frontage and 110 linear feet of Genesee Avenue frontage. All other frontage of this parcel is not across the street from other frontage that receives District Services. Melrose Elementary School will be assigned 264 linear feet of Melrose frontage and 110 linear feet of Formosa Avenue frontage and 110 linear feet of Detroit Street frontage. All other frontage of this parcel is not across the street from other frontage that receives District Services. With respect to PF zoned parcels, District

Services will only be performed on these frontages and no others. District Services will be provided on all frontages of all other District parcels.

Step 2: Calculate the benefit units for each property.

The number of each type of benefit unit allocated to each identified benefiting parcel within the Melrose was determined from data obtained from the County of Los Angeles and third party real estate data service providers. These data sources provide Assessor Parcel Numbers, ownership, address, parcel size, gross building size, street front footage, and other needed information. This data provides a basis for calculating property-based assessments. All relevant data being used in assessment calculations has been provided, or attempted to be provided, to each property owner in the District for their review. All known or reported discrepancies or errors have been corrected.

Step 3: Quantify total basic benefit units.

In aggregate, for Zone 1 there are 1,081,195 Lot Benefit Units; 838,643 Improvement Benefit Units; and, 17,887 Frontage Benefit Units. For Zone 2 there are 756,912 Lot Benefit Units; 255,722 Improvement Benefit Units; and, 1,122 Frontage Benefit Units.

Step 4: Calculate “Basic Benefit Unit Cost” for special benefits.

The annualized cost of the services and improvements to be provided by the District in Zone 1 during 2013 is \$466,179 per year (before inflation adjustments). \$155,393 of these costs will be allocated based on Lot Benefit Units; \$155,393 based on Improvement Benefit Units; and \$155,393 based on Frontage Benefit Units.

The annualized cost of the services and improvements to be provided by the District in Zone 2 during 2013 is \$19,893 per year (before inflation adjustments). \$6,631 of these costs will be allocated based on Lot Benefit Units; \$6,631 based on Improvement Benefit Units; and \$6,631 based on Frontage Benefit Units.

The cost per benefit unit for Zone 1 and Zone 2, respectively, is therefore as follows:

A. Lot Benefit Units:

$$\$155,393 / 1,081,195 = \$0.1437 \text{ per Lot Benefit Unit in Zone 1}$$

$$\$6,631 / 756,912 = \$0.0088 \text{ per Lot Benefit Unit in Zone 2}$$

B. Improvement Benefit Units:

$$\$155,393 / 838,643 = \$0.1853 \text{ per Improvement Benefit Unit in Zone 1}$$

$$\$6,631 / 255,722 = \$0.0259 \text{ per Improvement Benefit Unit in Zone 2}$$

C. Frontage Benefit Units:

$\$155,393 / 17,887 = \8.6876 per Frontage Benefit Unit in Zone 1

$\$6,631 / 1,122 = \5.9100 per Frontage Benefit Unit in Zone 2

Step 5: Determine Assessment Formula.

Combining the calculations from Steps 1 and 4, the assessment formula is therefore:

Zone 1 District assessment formula = $(\$0.1437 \times \text{square feet of parcel size}) + (\$0.1853 \times \text{square feet of improvements}) + (\$8.6876 \times \text{linear feet of frontage})$.

Zone 2 District assessment formula = $(\$0.0088 \times \text{square feet of parcel size}) + (\$0.0259 \times \text{square feet of improvements}) + (\$5.9100 \times \text{linear feet of frontage})$.

Step 6. Spread the Assessments.

The resultant assessment spread calculations for each parcel within the District are shown in an attachment to this Engineer's Report and were determined by applying the District assessment formula to each benefiting property. This list of all identified benefiting parcels in the District area delineates each parcel and its benefit units for parcel area, improvement size, and linear street frontage.

During the five-year effective term of the District, it is likely that some parcels within the District will be developed with additional commercial improvements or will see the demolition of existing improvements. The assessment against such parcels shall be recalculated beginning with the assessment for the first year following the construction or demolition of improvements. The new assessment against such a parcel shall be calculated pursuant to the formula set forth in Step 5 on Page ER-11. Pursuant to Government Code Section 53750(h)(3), such recalculation does not constitute an "increase" of assessment that requires the conduct of a new Proposition 218 ballot proceeding. Such a proceeding will be required if the assessment formula is itself changed.

Assessment rates may be adjusted annually by the Owner's Association to reflect changes in the Consumer Price Index for Los Angeles-Orange-Riverside for All Urban Consumers, but this adjustment will not exceed three per cent (3%) per fiscal year.

ATTACHMENT 1

**MELROSE PBID PROPERTY INFORMATION
and
ASSESSMENTS FOR 2014**

ATTACHMENT 2

**MELROSE PBID INTERCEPT SURVEY
RESPONSE SUMMARY
CONDUCTED
MAY 2 & MAY 4, 2013**